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Budget Uncertainty and Business Management Reform in the Department of Defense: Some Considerations for Acquisition Management

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Budget Uncertainty and Business Manangement Reform in the Department of Defense: Some Considerations for Acquisition Management

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Abstract

Business management reform efforts have been part of the US Defense Department agenda for decades. Current reform efforts have explicitly established the goal of generating, harvesting, and reinvesting savings from business management reform to buy more capital items; that is, they have focused on a measurable reallocation from operating and support costs to investment within a given budget top-line. While this would seem to be good news for the acquisition community, recent increases in the defense top-line, largely related to the war on terrorism, have not necessarily resulted in greater allocations for acquisition. An examination of the factors affecting the top-line suggests that near-term budget uncertainty is likely. An examination of current and past defense management reforms suggests that efficiency-seeking business management reforms are not likely to generate sufficient resources to cover a budget decline or finance significant capital reinvestment. Instead, management reform, including on-going reform of acquisition management, should be sustained for reasons of stewardship and accountability.

Keywords: Defense management, defense budgets, management reform

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Introduction

After six years of increasing budgets and an active defense management reform agenda in the G.W. Bush Administration, it now appears that defense budgets may be headed for a more uncertain near-term future, and the future role of management reform initiatives may be equally uncertain. Despite significant increases in defense spending, resource allocation decisions are favoring operating expenses over capital investments. External pressures from the budget deficit, rising costs for entitlement programs, pressure from other discretionary programs in the federal budget and public opinion regarding defense activities suggest that total resources allocated for defense will be constrained in the foreseeable future. Internal pressures from rising costs for manpower, health care, operations and maintenance are constraining discretionary spending inside the defense budget—even as acquisition costs are also increasing. The Department of Defense (DoD) and the individual service components have been looking toward major management reform initiatives as a means to save and reinvest resources within current budget projections. What are the implications of this budgetary and management environment for acquisition?

Why the Near-term DoD Budget May Be Uncertain

When one asks whether the DoD budget top-line will rise or fall, there are both historical patterns which should be considered as well as internal and external factors that affect those patterns.

Figure 1 displays three measures of the defense top-line over the period 1940-2011. In absolute terms, since WWII, defense outlays appear as a cyclical pattern with a lower limit of about $350 billion and an upper limit of about $550 billion in FY2006 dollars. The cycles are fairly consistent with a wavelength ranging from 15 to 21 years. Fiscal Year 2007 is 18 years since the last peak in 1989, suggesting that *if the long-term pattern repeats*, defense will face declining absolute top-lines beginning within the next few years and continuing for 7-10 years.

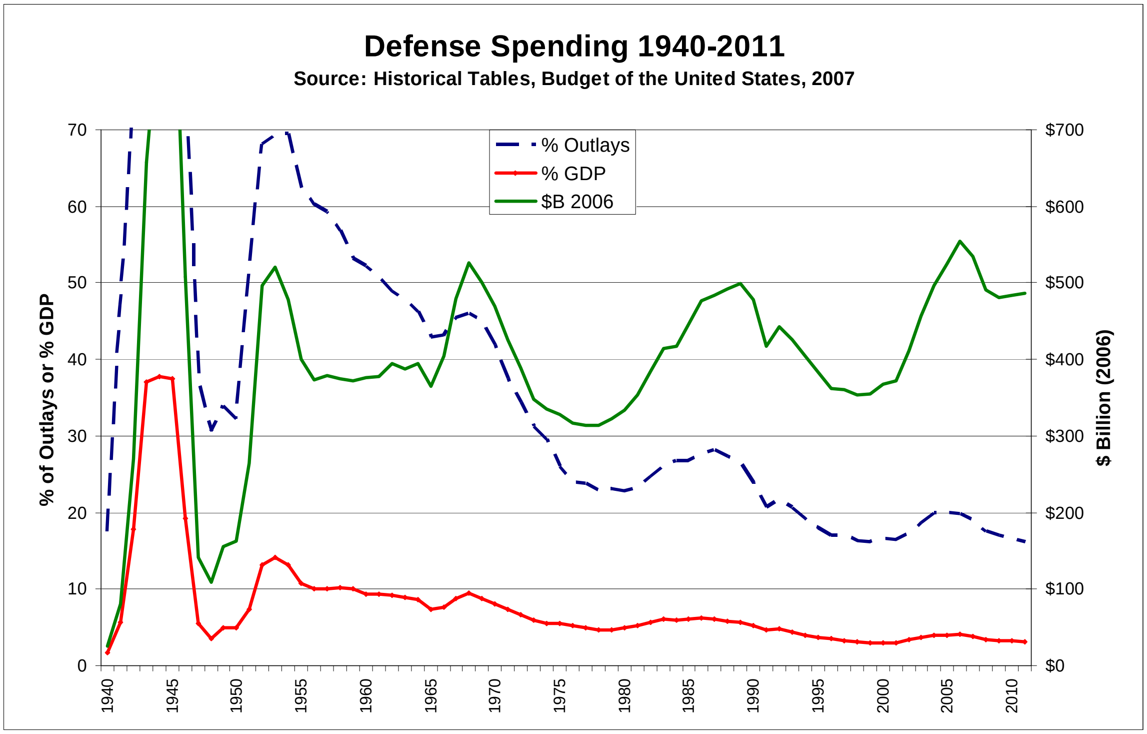

Figure 1. Defense Top-line 1940-2011: Various Measures
(OMB, 2007)

In relative terms, since WWII, defense spending as a percentage of GDP has fallen rather steadily from a peak of 14.2 percent in 1952 to a low of 3 percent in 1999-2000. In 2006, defense spending stood at about 4.1 percent of GDP. Similarly, defense spending as a percentage of federal outlays has also fallen significantly, from a peak of 69.5 percent in 1954 to a low of 16.1 percent in 1999. In 2006, defense was 19.8 percent of federal outlays. Today, approximately 1/5 of federal government spending is for national defense, and 4/5 are for other functions of government; in the 1950s, 2/3 of government spending was defense. *Should the long-term trends continue*, defense can expect declining relative top-lines.

Simply identifying the trend of the last 50 years does not mean that trend will apply to the next 3-5 years. We do not have the knowledge to make a point prediction. More than a long-term trend is needed, and there are other factors that may affect the top-line—those both external and internal to the department. Apart from the obvious effects of the war, certain external factors are associated with federal fiscal policy and political dynamics.

External Fiscal Factors

Deficits. As of 2006, the US has experienced four consecutive years of budget deficits following four consecutive years of budget surpluses. The Bush Administration's position is that it will eliminate such annual deficits by 2012. When an administration or congress wishes to reduce a deficit, generally it requires a combination of increasing revenues and decreasing outlays. If defense maintains even a steady proportion of federal spending during an overall

decline, it will lose top-line.[1] But the correlation between defense spending and deficits may be even more closely connected.

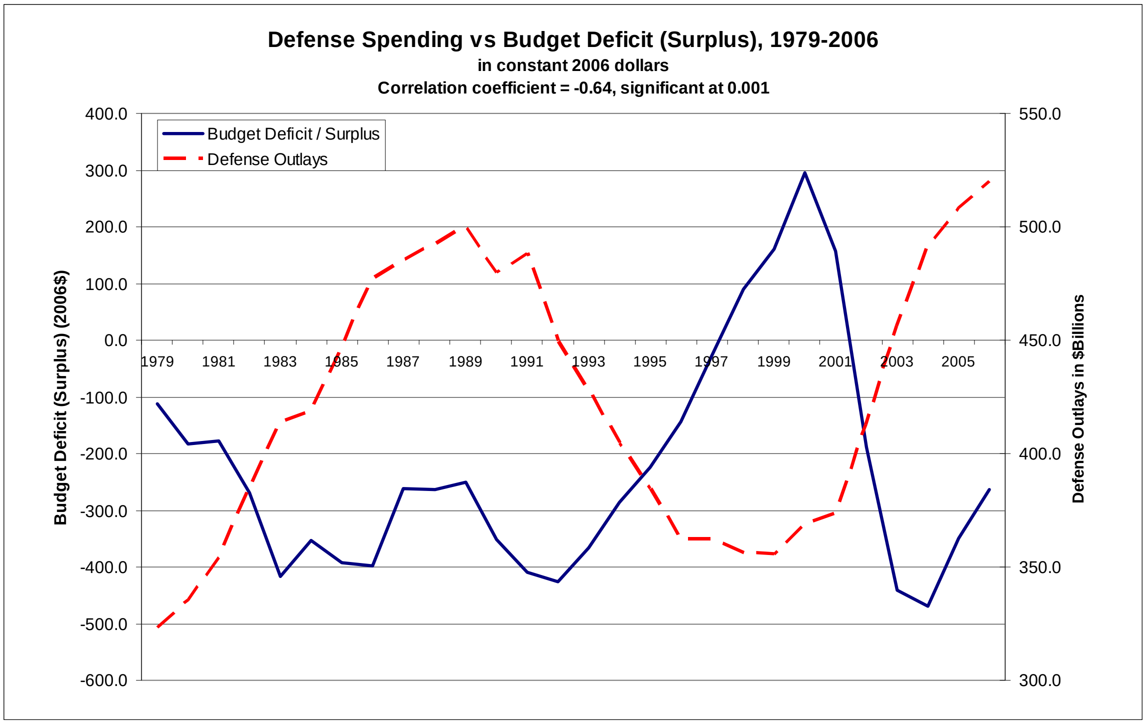

Figure 2. Defense Spending and Deficits, 1979-2006
(OMB, 2007)

Figure 2 plots budget deficits against defense spending from 1979 to 2006. It is readily apparent that as defense spending rose, deficits increased; as spending on defense fell, deficits fell to the point of achieving surpluses. Defense spending does not necessarily cause deficits; rather, each could be affected by a third factor such as an unstable international situation. However, the apparent relationship suggests near-term uncertainty for the defense budget as deficit-reduction policies take hold.

Mandatory Programs. Defense spending has fallen from 2/5 of federal spending to 1/5 in the past 40 years, supplanted by mandatory spending; see Figure 4. From 1966 to 2006, interest on the debt and "all other spending" accounted for roughly the same proportion of federal spending—about 41 percent. The remaining 59 percent was largely defense spending in 1966; at that time, defense spending was three times more than Social Security spending. In the intervening 40 years, the proportion of federal spending on defense was reduced more than 50 percent while Social Security rose by 40 percent. Health programs, new in 1966, represent nearly as much as defense in 2006.[2]

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[1] Of course, if growth is kept below the rate of inflation, there could be deficit reduction with a nominal increase in the top-line.

[2] If one allocates the health-care related programs from defense and "all other spending" and adds them to the Medicare & Medicaid wedge, the total health care portion grows to about 25 percent while defense falls to about 19 percent. See table 16.1 of the Historical Tables that accompany the federal budget for Fiscal Year 2008.

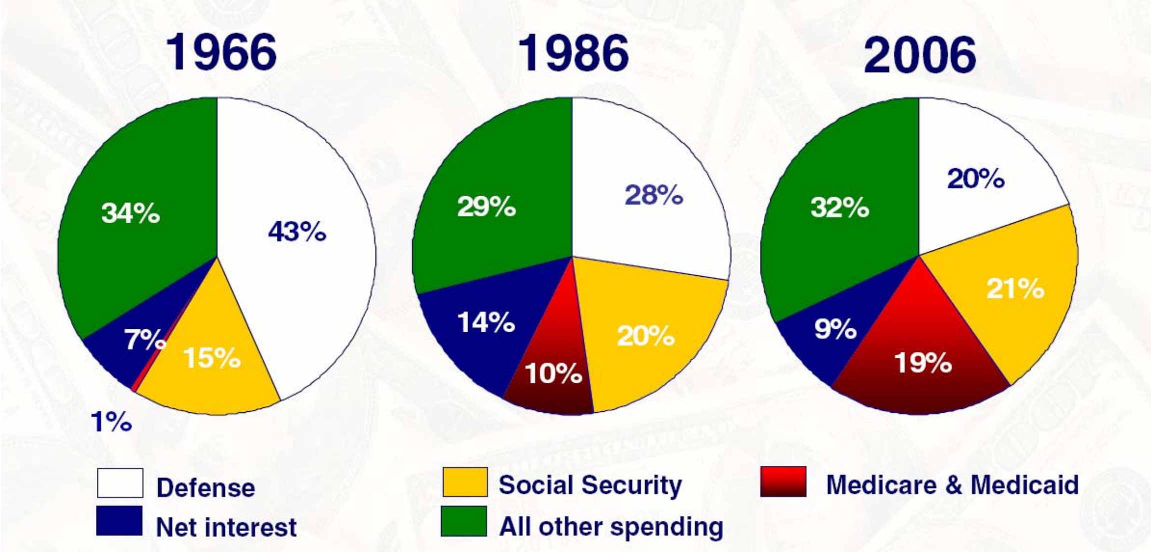

Figure 3. Components of Federal Spending
(OMB, 2007)

The Congressional Budget Office estimates that this shift will continue. It estimates that in 2016, the mandatory programs will cost $1,274 billion more than in 2006—rising to a total of $2,793 billion (CBO, 2006). That is more than all the projected federal outlays, mandatory and discretionary spending in 2007. The CBO projects that in the period from 2008-2017, discretionary budget authority will increase at 2.0 percent per annum, relative to GDP growth of 4.5 percent, while mandatory spending will grow at 5.9 percent (CBO, 2007).

Non-defense Discretionary Spending. Defense top-lines not only feel pressure from growing entitlement programs, but may also face pressure from other discretionary programs. From 1985 to 2006, total discretionary outlays as a percentage of GDP fell from 10.0 percent to 7.8 percent. Of those 2.2 percentage points, defense spending accounted for 2.1 and other discretionary spending accounted for 0.1 (CBO, 2007). Nearly the entire reduction in discretionary spending was absorbed by defense. The last few years of that history tell a different story, however. From 2001 to 2006, total discretionary outlays as a percentage of GDP rose from 6.3 percent to 7.8 percent. Of that 1.5 percentage point increase, defense accounted for 1.0 point and non-defense accounted for 0.5 (CBO, 2007). Figure 4 displays a 40-year trend in discretionary spending separating defense from non-defense spending. We see again the cyclical nature of defense spending with a counter-cyclical, but steadily upward trend in non-defense spending.

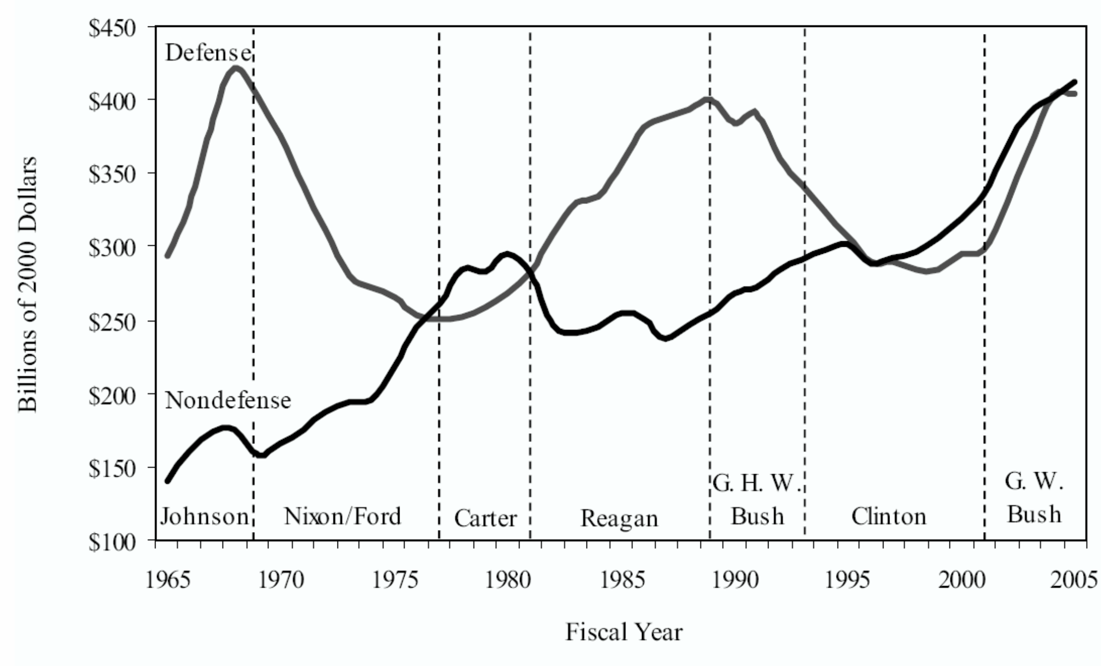

Figure 4. Defense & Non-defense Spending by Administration
(OMB, 2007)

External Political Factors

How responsive are Washington decision-makers to the demands of the public? The evidence strongly suggests that if the general public believes defense spending is too high, defense spending declines and vice-versa. Studies conducted at the end of the Cold War demonstrated empirically that the desires of the public are reflected in future spending decisions (Hartley & Russett, 1992; Higgs & Kilduff, 1993).

Updating that research, Figure 5 displays the direction and strength of public opinion about defense spending with subsequent changes in that spending. Change in defense spending correlates strongly with the direction and strength of public opinion. When public opinion favors increased defense spending, spending has tended to go up the following year; when the public favors a decrease, spending tends to drop the following year. The intensity of public opinion also forecasts the significance of the gain or drop. In combination with the data in Figure 1, one might conclude that the public has a “comfort zone” of appropriate defense spending that ranges between $350 billion and $550 billion (FY2006 dollars). Yet, defense spending for FY08 is projected to be $593 billion (FY2006 dollars).

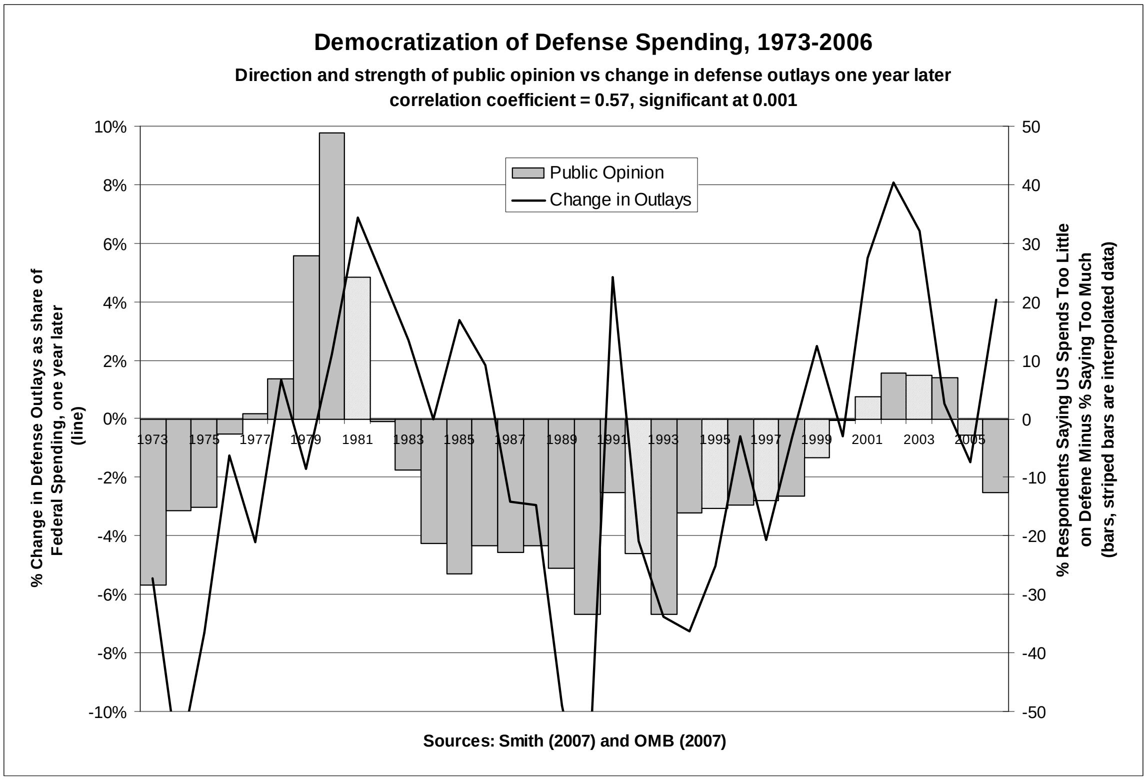

Figure 5. Public Opinion and Defense Spending
(Authors, derived from Smith, 2007; OMB, 2007)

What does the public currently believe about defense spending? The polling data used in Figure 5 indicates that in 2006, 39.4 percent of Americans favored reduced defense spending, contrasted with 26.8 percent who favored an increase (Smith, 2007). The Program on International Policy Attitudes (PIPA) at the University of Maryland researches American attitudes regarding international and foreign policy issues. An extensive survey in 2005 asked a representative sample of Americans to reallocate a hypothetical $1000 in income taxes across federal programs in the proportion they believed was most appropriate. Before the reallocation, they were shown the actual 2006 budget. These survey respondents would have cut the DoD baseline budget by 31 percent and war supplemental appropriations by 35 percent. They would have reallocated most of those resources toward reducing the deficit and improving education. They favored increases in international affairs programs and would have reallocated defense spending away from strategic and heavy capacity (e.g, nuclear weapons, bomber aircraft and capital ships) toward manpower, communication, intelligence and special operations capabilities (PIPA, 2005).

To summarize, there has been fiscal pressure on the defense top-line from growth in mandatory spending accounts and non-defense discretionary accounts. We are again at a time when deficits are a point of concern. Politically, the current Administration faces increased congressional opposition to military policies; public support of defense spending is waning. Time will tell how that manifests in spending decisions. External factors are vital when considering current defense management reform, but internal factors may be more important.

Internal Factors

Internal factors affecting defense spending are those defense leaders are more able to directly control. They include budgeting and spending for acquisition, personnel, and operation and maintenance. The policy of budgeting for the war separately also confounds analysis of defense spending. Before looking at specific factors, let us take a broad view. From the low point of the 1990s "procurement holiday" to today, the DoN's budget has increased 46 percent in real terms, but the size of the fleet fell from 354 battleforce ships to 280; aircraft inventory fell from 2,559 to 2,330; and the number of personnel (uniformed and civilian) fell from 929,358 to 829,531 (Navy, 2007b). While spending increased by half, the naval forces are 15 percent smaller. The last time defense experienced twelve continuous years of budget growth was 1979-1990 during which time the fleet grew from 530 to 587 ships.

To sustain the current goal of a 313-ship Navy, there needs to be sufficient shipbuilding budget authority to consistently build an average of eleven ships a year. Since 1998, Navy 5-year budgets have planned to build eight ships per year but have succeeded in building only six ships per year. To get to twelve will require nearly doubling the annual shipbuilding budget, currently at $11 billion (CRS, 2006b). Can management reform efforts generate $10 billion from the other accounts?

Acquisition Costs

The Department's appetite for major acquisition programs and the cost performance of those programs continue to be important issues. The Joint Strike Fighter, F-22A, the Army Future Combat System, the Air Force's Transformational Satellite System, the Navy's DD-1000 and Virginia-class submarine programs have all experienced significant cost growth, quantity reductions or schedule slips (CRS, 2005). In early 2007, the Navy acquisition executive issued a stop-work order for the relatively affordable Littoral Combat ship when the first ship in the class experienced costs 50 percent over budget. Thus, one comes to the difficult realization that just as other internal and external factors are putting pressure on the fiscal resources available for recapitalization, acquisition itself is a source of fiscal stress.

Personnel Costs

Pay and benefits for personnel have increased in recent years. At the same time, accrual accounting changes have illuminated some costs (such as the accrued costs of retiree heath care) which have always been there, but weren't explicitly recognized. The activation of tens of thousands of reservists and guardsmen for the Iraq war resulted in higher pay and increased long-term liabilities because their benefits packages have been expanded. Figure 7 plots Department of the Navy spending from 1997-2008 on pay, allowances and family housing against the total number of active and reserve Navy and Marines. In constant dollars, the cost per troop has risen 47 percent. In an effort to hold outlays constant, the policy has been to reduce the size of the force.

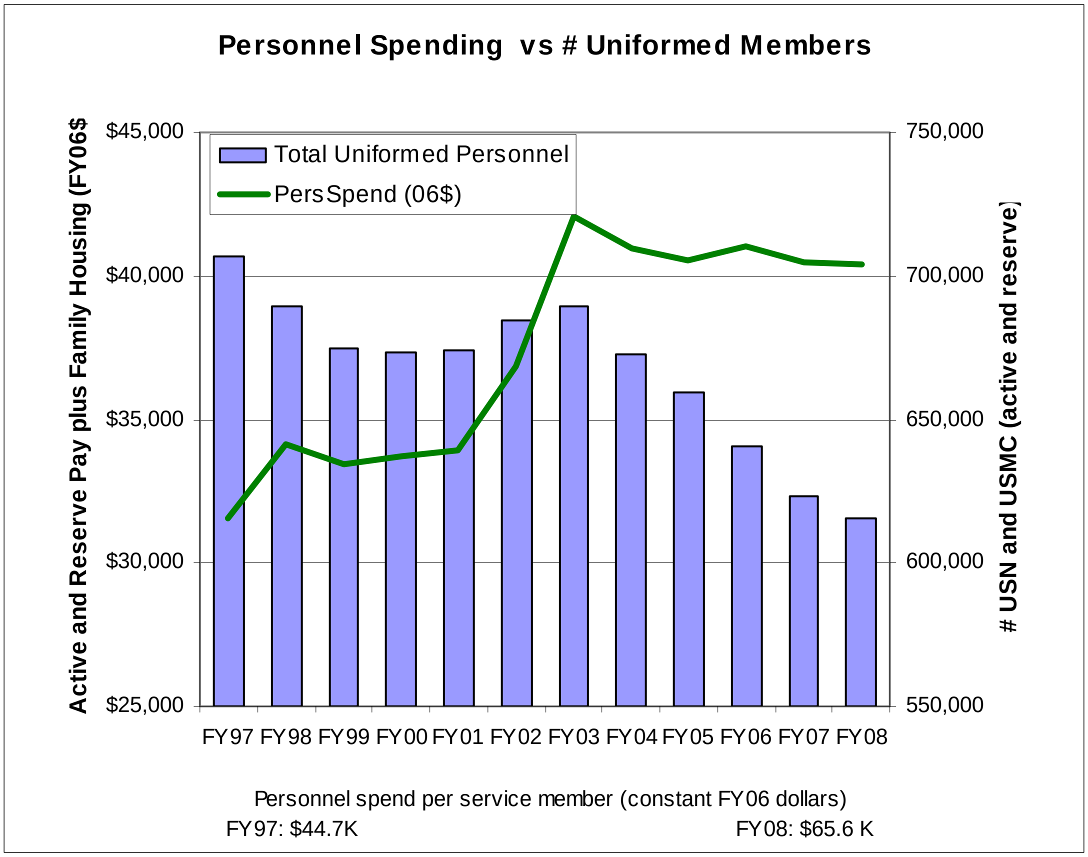

Figure 7. Rising Personnel Costs, Measures
(Navy, 2007)

Operations and Maintenance Costs

Looking back, O&M spending in the Department of the Navy since 1997 (including the significant Marine Corps participation in GWOT) has remained a steady 32 percent of DoN spending, but that is at a time when the force structure has decreased 15 percent (Navy, 2007b). Looking forward, the war's toll on equipment will drive up O&M requirements for the next few years, particularly in depot maintenance (GAO, 2006). However, that is not readily apparent in the budget. The FY2008/2009 defense budget, like all defense budgets since 9/11, was tallied and submitted separately from the wartime supplemental budget. Because of that practice, the baseline budget for Marine Corps depot maintenance shows a decrease from $372 million in 2006 to $71 million in 2008 (Navy, 2007a). Separately, the Marine Corps requested an FY2008 supplemental appropriation of $490.6 million for this account. If one has the wherewithal to marry the two, they will see that depot maintenance is actually projected to increase from $372 million to $562 million, not decrease. Program and budget analysts, in an attempt to separate a "peacetime" budget from the cost of war, now produce twice the number of documents (leading to twice the legislation and twice the number of accounts to manage)—none of which individually accurately portrays the true level of activity.

Other supplemental appropriation issues

The wartime supplemental appropriations confound analysis of defense spending further. When the Navy submitted its FY2008 budget, it announced cuts in the acquisition of

aircraft (Castelli, 2007) but replaced a large number of those aircraft in the supplemental requests. For example, nine H-1 helicopters were cut from the base, but requested in the supplemental; eight H-60 helicopters were cut from the base, but nine were requested in the supplemental; four V-22 tilt-rotor aircraft were cut from the base, and three were requested in the supplemental (despite the fact the V-22 has not been used in the war) (Navy, 2007). Theses practices cause distortions in baseline budgets that may negatively affect future DoD budgets after the use of supplemental appropriations ceases unless some type of "recapture" takes place.

Summary

Will the defense top-line rise or fall over the next few years? Long-term historical trends suggest that by all measures (%GDP, %Outlays, constant dollars), defense spending is likely to fall. If one takes into consideration factors in the near-term, we see evidence of downward pressure. External factors such as growing entitlement programs and growing discretionary programs restrict the room for growth in the defense budget, particularly during periods when there is political pressure to reduce deficits. In addition, the newly-elected Democratic leadership in Congress and the direction and strength of public opinion question increased defense spending. Internal factors push for a higher top-line but include significant inflationary effects, so top-line increases have bought less force structure (but not necessarily less capability). Supplemental appropriations for the war are likely to continue and provide an opportunity for the defense department to seek relief from budget pressures. The Bush Administration requested a significant defense budget increase in FY2008, 11 percent more than in FY2007; but the DoD is already exhibiting signs of fiscal stress. No one can say for certain what will happen in the future, but it appears the defense budget is under both increased stress as well as increased scrutiny.

Defense Business Management Reform

How does this budget situation relate to business management reform within the DoD? A review of the recent history of defense business management reform and an examination of the current management reform agenda suggest some implications for both budgeting and managing in a time of uncertain budgets.

Recent History of Defense Business Management Reform

The George W. Bush Administration also came to office with a management focus. The President's Management Agenda (PMA) addresses five areas targeted for management reform throughout the federal government: human capital, improved financial management, competitive sourcing, electronic government, and budget and performance integration (Rumsfeld, 2003).

In the DoD, an initial management objective was to "increase effectiveness through increased accountability and efficiency" (Rumsfeld, 2002), with emphasis on cost reduction, improving quality, reducing redundancies, and adopting best business practices. Secretary Rumsfeld emphasized the creation and use of metrics to quantify performance improvements, and he sought to focus the Department's resources on core functions (Francis & Walther, 2006). To improve its efficiency, the DoD is tackling several significant challenges: cost reduction, organizational realignment and cultural issues (Walker, 2004).

The DoD has identified six major, strategic, high-leverage initiatives called Business Enterprise Priorities (BEPs). These BEPs include achieving better visibility into personnel,

acquisitions, materiel, finances, common supplier engagement and real property accountability (DoD, 2006a). Oversight of defense business transformation is conducted by the Defense Business Board, an advisory panel consisting of private-sector executives chartered to provide, “independent advice and recommendations on effective strategies for the implementation of best business practices of interest to the Department of Defense” (DoD, 2007).The Department’s Business Management Modernization Program (BMMP) and Defense Business Transformation Agency (DBTA) were created to institutionalize parts of the DoD change program. DBTA’s strategic objectives include improving financial stewardship, enabling rapid access to information, and reducing the costs of defense business operations (Pair, 2007). DBTA has established seven directorates to manage its reform agenda—including the Defense Business Systems Acquisition Executive.

The Army, Navy and Air Force have developed service-specific management reform agendas, as well. Lean Six Sigma is the Army’s tool of choice to drive across-the-board elimination of unnecessary or wasteful processes, the reduction of process variability, and the improvement of quality (Army, 2006). The Air Force intends to create new processes through its Smart Ops 21 program, which encompasses the tools of Lean, Six Sigma and Theory of Constraints (Lopez, 2005). The Navy’s Sea Enterprise initiative aims to reduce costs in order to provide internally generated resources for reinvestment and recapitalization (Clark, 2002). Sea Enterprise has identified three imperatives: change the culture, improve processes and structures, and harvest savings.[3] The Navy is also undertaking a challenging enterprise realignment to create a more matrixed organization and to create a culture of enterprise-wide thinking.

The current management reform agendas have a defining distinction: they focus on generating internal savings through effective cost management to support investment and recapitalization for the operating forces. This vision has been much more explicit than those of past reform efforts. It provides a measurable objective, and it aligns with the core values and mission of the organization.

There are practical issues associated with this objective, of course, such as how to re-allocate operating funds to investment accounts effectively in an execution year, how to track and apply savings within the current accounting systems, and how to distinguish between “real” savings and future cost avoidance. Even if these obstacles can be overcome, there are larger issues that threaten to undermine the management reform agenda and, in turn, reduce or eliminate recapitalization funds derived from management reform.

Management Reform at Risk?

The current defense management reform agenda is driven by three factors: (a) to align changed business practices with force transformation; (b) to generate resources internally to support recapitalization and investment in future combat systems; and (c) to reduce internal pressures on the defense budget as well as to respond to external pressures on the defense budget. If these imperatives are as strong as they appear, what then could undermine the current reform effort and make it unsustainable? There are four clear possibilities.

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[3] For a more thorough description of current reform efforts, see (Dawe & Jones, 2005) and (DoD, 2006b).

1. War Costs. If operations in Iraq and Afghanistan persist, costs associated with the base defense budget and the war effort will continue to diverge—particularly if war funding continues to be provided through non-traditional budget “bridges” and supplemental appropriations, a pattern unseen in the budgeting for past wars (CRS, 2006a). In this case, management associated with the base budget will operate in an increasingly constrained environment, while unconstrained spending will continue to be associated with the war. This is hardly an environment that will drive culture change and cost management throughout the organization. Moreover, these conditions invite the migration of base budget functions to the less constrained and less cost-managed war budget—resulting in distortions in the base budget that will affect future budget decisions.
2. Losing the Vision. Alternatively, Congress could demand that appropriations for the war efforts migrate to the base budget. In that case, it is likely total defense resources will erode as they are combined and become more transparent. Thus follows the second possibility: losing the reform vision to current-year “budget drills” to meet unfunded needs or to fill budget “wedges” in the execution year. Successful reforms may depend on demonstrating that the cost reductions and management reforms have generated the desired savings *and that the savings have been applied to the stated objective*. Failure to sustain or account for the results can lead to a loss of credibility for senior leaders (Roberto, 2005). If budget reductions cause the recaptialization goals to disappear in favor of simply meeting reduced budget targets, much of the motivation for reform could be lost.
3. Change Fatigue. “Repetitive Change Syndrome” is experienced when organizations too frequently adopt change initiatives. Such frequency generates chaos, burnout, and incapacity to make further change, thus, harming daily operations (Abrahamson, 2004). Observers warn against adopting change initiatives too frequently (Abrahamson, 2004). Defense management reform has been a continuous theme for over twenty years. Sustaining transformation could now depend on learning more about how the organization perceives the change agenda through analysis of communications and feedback and by examining the knowledge, attitudes, and actions of the receptors of communications about transformation.
4. Leadership Change. Leaders change frequently in the DoD among both uniformed and senior civilian leaders. It often appears that management reform initiatives do not survive leadership transitions, notwithstanding the success or failure of any particular reform initiative. The current Administration is in its final two years; sustaining its management agenda beyond the election horizons may not be a high priority in the permanent DoD bureaucracy. A new management agenda will replace the current “transformation” agenda, though the next administration will almost certainly face the same challenges to find more efficient defense business-management practices and seek reinvestable cost savings from these efficiencies. Learning to institutionalize the principles and processes of management reform will be important to future leadership transitions. We recommend a research and education project to facilitate the sustainment of improvements in defense business management practices through the expected leadership transition of 2008-2009.

Management Reform in a Declining Budget

How then should management reform be considered, if budgets are likely to decline and significant organizational risk factors threaten sustainment of defense business-management reform initiatives?

Efficiency-seeking management reforms will be insufficient to make up the budget shortfall. Claimed cost savings can be initially impressive. For instance, the Naval Air Systems Command claims FY 2007 savings-to-date amounting to 13.9 million—composed of permanent cost reductions ($6.1 million) and potential cost reductions from improved practices ($7.8 million) (Navy, 2007c). Overall, the Navy's business transformation advocate claims combined savings from Sea Enterprise initiatives of $27.7 billion from FY 2003-2005 (McCarthy, 2006). In both cases, some of the savings are realized in current-year operations; more are the result of projected cost reductions and revised future spending requirements. Nevertheless, these savings are not likely to close the budget gap if defense budgets decline and there is insufficient evidence to indicate whether any of these savings can be tracked to reinvestment in capital accounts. Even if efficiency-seeking savings reduce a significant portion of the internally generated fiscal stress, cost-reduction measures through management initiatives will not likely close the entire fiscal gap because they only address the internal sources of stress. The external sources are untouched by efficiency savings. Moreover, cost reductions are dispersed throughout the organization, are difficult to harvest, and are likely to be hoarded by middle managers in the face of tight resources. Savings in current-year budgets are likely to be redirected to under-funded current requirements.

Good management does not attract resources. There is little evidence to suggest that good management is rewarded with larger budgets. Resource-allocation decisions are policy choices among competing demands. Good management reduces the demand and may lead to reduced marginal future resource bases. Even the movement toward performance budgeting in the federal government leaves unclear the link between performance and resource allocation (Miller, Hildreth, & Rabin, 2001). Budgets simply do not grow because an agency gets a clean audit opinion or reengineers business practices.

If efficiency-seeking business-management reform cannot be viewed as a solution to declining defense budgets, how should the DoD view the rationale for sustaining management reform initiatives? There are three strong imperatives for sustaining an effective management reform agenda:

Continuous efficiency-seeking management improvement in the DoD should be understood as driven by stewardship concerns and the requirements of the operating forces. The DoD has the responsibility to the President, the Congress and the public to be a good steward of the highly material portion of the federal budget it manages. There is a justified expectation that the DoD will manage its resources well. The DoD also has a responsibility to support efficiently the varied requirements of the operating forces: people, systems, weapons, materiel. The policies and processes of management reform must align with operational requirements, especially as force transformation increases pressure on the business side of the department.

Large budget reductions can only be met by truly transformational responses. Despite the rhetoric of "transformation," the history of management reform in the DoD has been a model of incremental continuous change. A large decline in the defense top-line can only be met by transformational changes that take functions AND costs out of the department permanently. Major productivity improvements through consolidations, divestiture of both functions as well as assets, cancelled programs, and sharply reduced personnel would have to be achieved.

The acquisition community must view itself as a participant in cost-focused management reform rather than as a beneficiary. Rising acquisition costs are a major source of internal fiscal stress for the DoD. It is unlikely that cost reductions in other internal areas (such as personnel

or operations and maintenance) can possibly generate savings that will match the current growth in capital costs, let alone provide funds for additional reinvestment. The acquisition community must focus on its own cost-reduction initiatives to help generate the funding needed for recapitalization.

Thus, the matter of sustaining management reform in a time of uncertain budgets can be approached as two questions, not one: What are the best budget-policy decisions regarding resource levels and allocation considering the salient internal and external factors? And how much and what type of management reform is needed to meet the standards of stewardship and to support the requirements of the operating forces?

Conclusion

We have both investigated business management reform in the Department of Defense as well as examined the question of uncertain defense budgets. It is evident that pressure on the defense top-line comes from both external sources and internal factors. We have argued that efficiency-seeking management reforms can only address the internal pressures on the defense top-line. We have identified specific threats to the sustainment of defense management reform in a time of declining budgets and have offered strategic propositions to consider when addressing management reform in a time of uncertain budgets.

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- Acquiring Combat Capability via Public-Private Partnerships (PPPs)
- Knowledge Value Added (KVA) + Real Options (RO) Applied to Shipyard Planning Processes
- Portfolio Optimization via KVA + RO
- MOSA Contracting Implications
- Strategy for Defense Acquisition Research
- Spiral Development
- BCA: Contractor vs. Organic Growth

Contract Management

- USAF IT Commodity Council
- Contractors in 21st Century Combat Zone
- Joint Contingency Contracting
- Navy Contract Writing Guide
- Commodity Sourcing Strategies
- Past Performance in Source Selection
- USMC Contingency Contracting
- Transforming DoD Contract Closeout
- Model for Optimizing Contingency Contracting Planning and Execution

Financial Management

- PPPs and Government Financing
- Energy Saving Contracts/DoD Mobile Assets
- Capital Budgeting for DoD
- Financing DoD Budget via PPPs
- ROI of Information Warfare Systems
- Acquisitions via leasing: MPS case
- Special Termination Liability in MDAPs

Logistics Management

- R-TOC Aegis Microwave Power Tubes
- Privatization-NOSL/NAWCI
- Army LOG MOD

- PBL (4)
- Contractors Supporting Military Operations
- RFID (4)
- Strategic Sourcing
- ASDS Product Support Analysis
- Analysis of LAV Depot Maintenance
- Diffusion/Variability on Vendor Performance Evaluation
- Optimizing CIWS Lifecycle Support (LCS)

Program Management

- Building Collaborative Capacity
- Knowledge, Responsibilities and Decision Rights in MDAPs
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Acquisition Research Program:
Creating Synergy for Informed Change

Budget Uncertainty And Business Management Reform In The Department Of Defense: Some Considerations For Acquisition Management

Philip J. Candreva **Douglas A. Brook**

The sentiment within DoD is that…

(a) resources are becoming more constrained, regardless of the defense topline, and that impacts the ability to recapitalize the force (e.g., aging aircraft in the USAF, transformation of the USA, and a 313-ship USN).

(b) management reform efforts (e.g., Navy Enterprise) are a source of budgetary relief – DoD should create efficiencies, harvest the savings, and use those savings for recapitalization.

Outline

- Review management during retrenchment
- Identify Budgetary trends and sources of current and near-term future fiscal stress
- Explore current management reform initiatives which seek efficiencies to provide funds for recapitalization
- Discuss the interaction between budgets and management reforms and the implications for acquisition

Management during Retrenchment

Sources: Levine (1978), Glassberg (1978), Cameron, Whetten & Kim (1987)

- A contingency for stakeholders, a problem for managers
- Organizations' reactions to budget retrenchment:
  - Stakeholder pluralism increases in the face of increased conflict over competition for resources
  - Managers take a decremental view, reinforcing the status quo:
    - Suboptimal across-the-board cuts are made to ameliorate conflict
    - Attention shifts to short-term crises and planning is reduced in the cutback
    - Innovation is deferred or forsaken as an extravagance
  - Decision-making is centralized; morale falls at lower levels
  - Leaders are marked as scapegoats, lessening credibility and increasing turnover

Defense Spending – Looking ahead

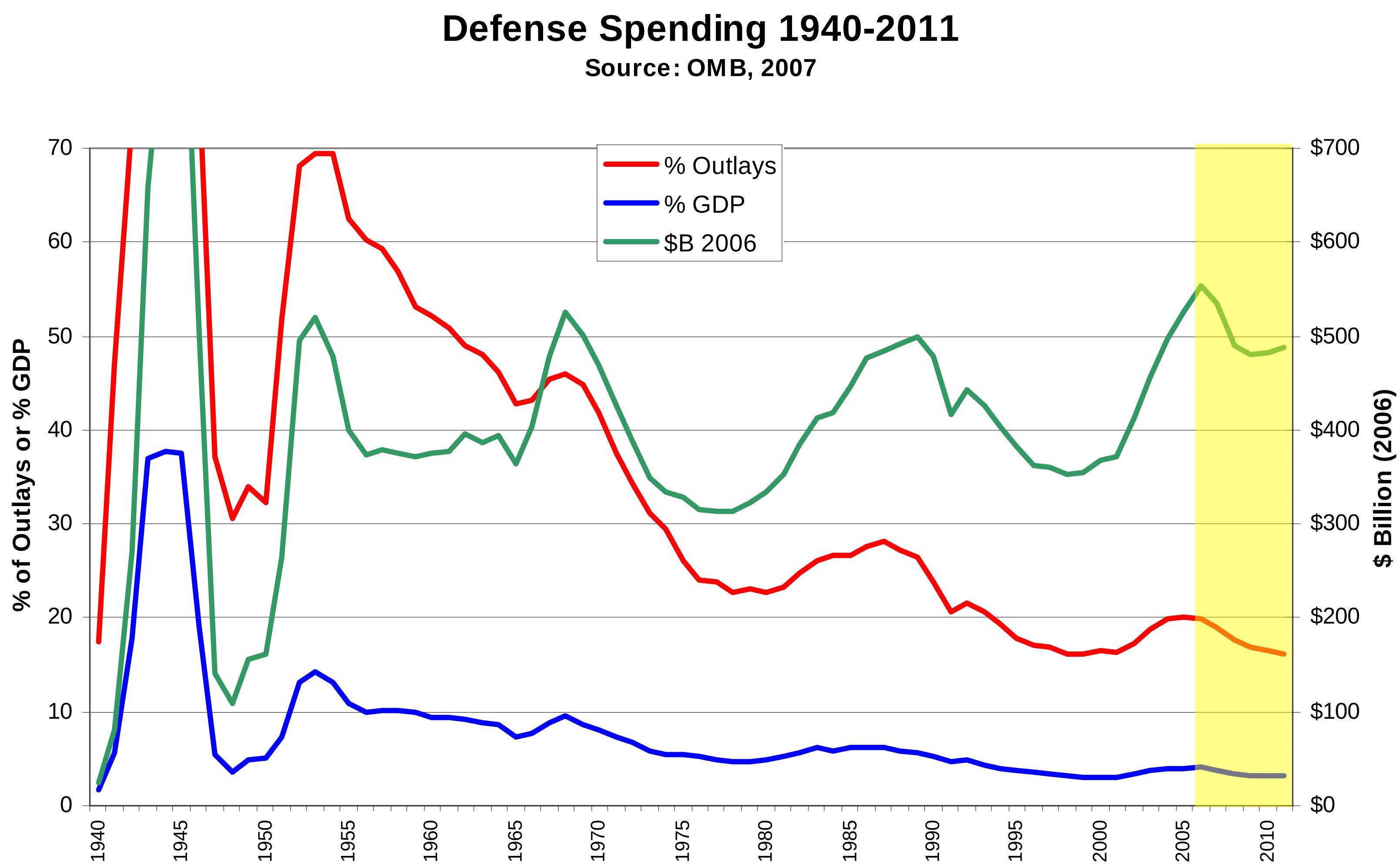
External Factors

- Federal budget pressures
- Federal budget deficits
- Democratization of defense spending

Internal Factors

- Unrealized plans
- Hyper-inflation in sub-accounts

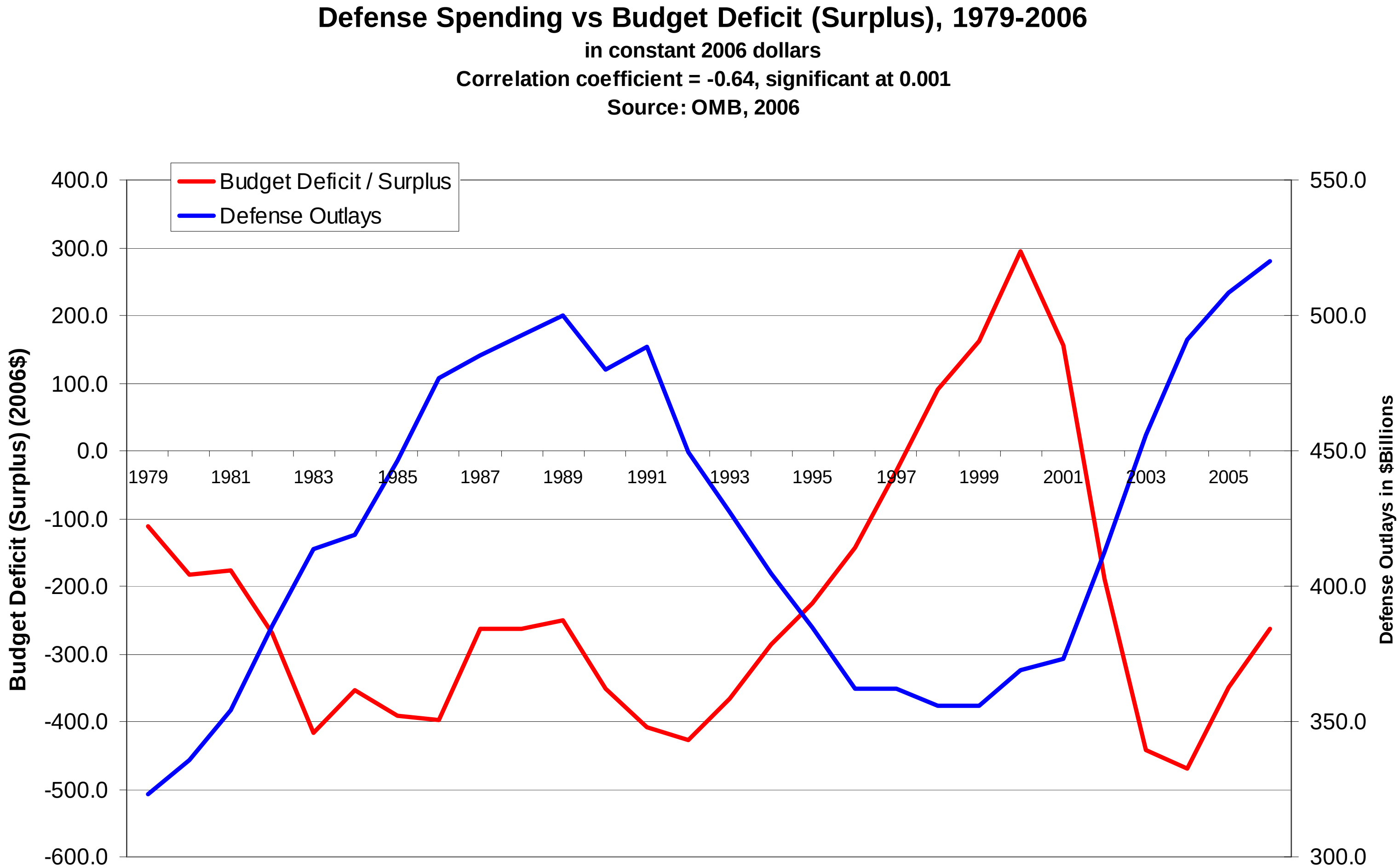
Defense Spending Trends



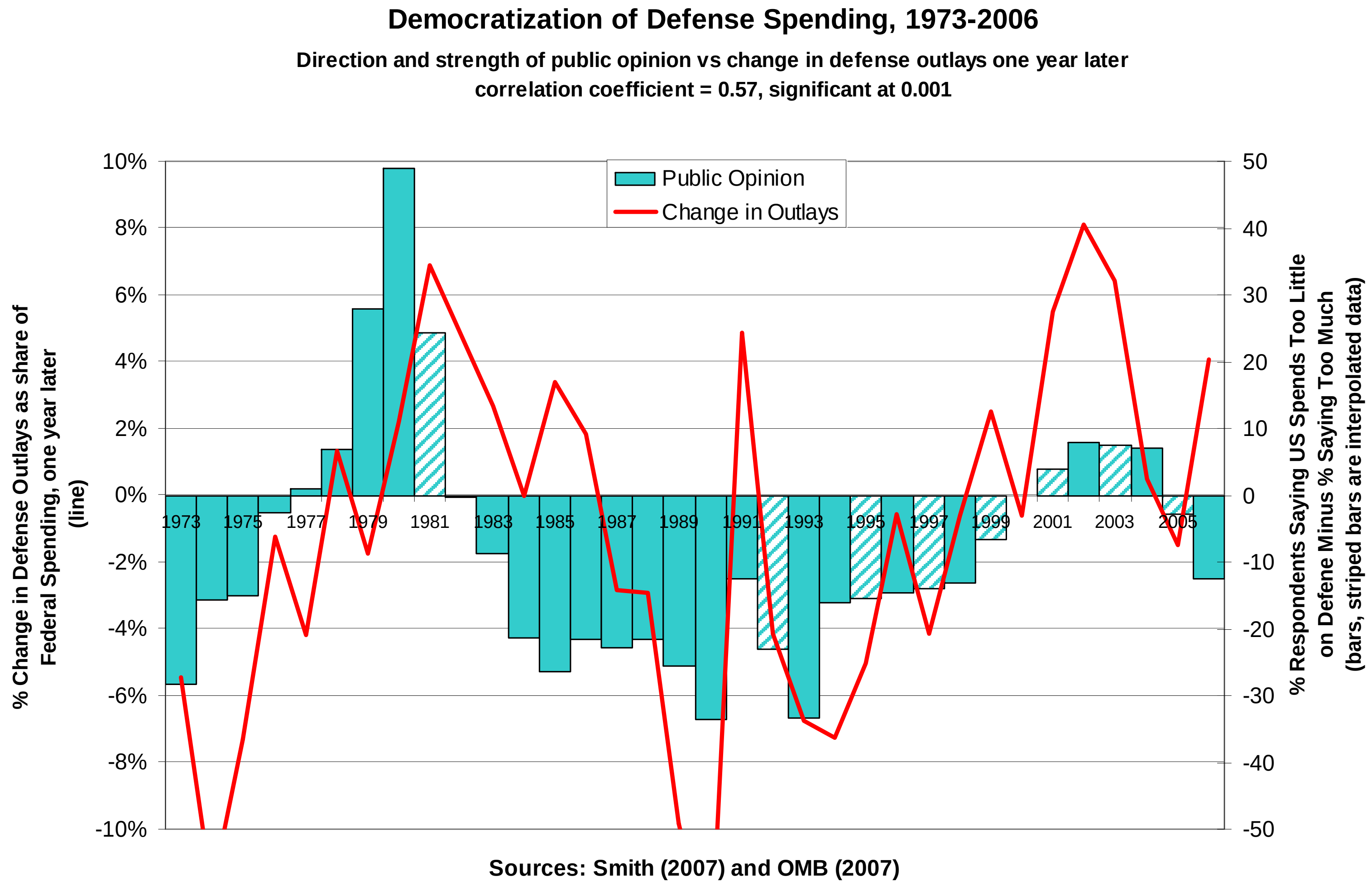
Source: OMB, Historical Tables, Budget of the Federal Government for Fiscal Year 2008

Defense Spending and Deficits

Source: OMB, Historical Tables, Budget of the Federal Government for Fiscal Year 2008



Public Opinion and Defense Spending



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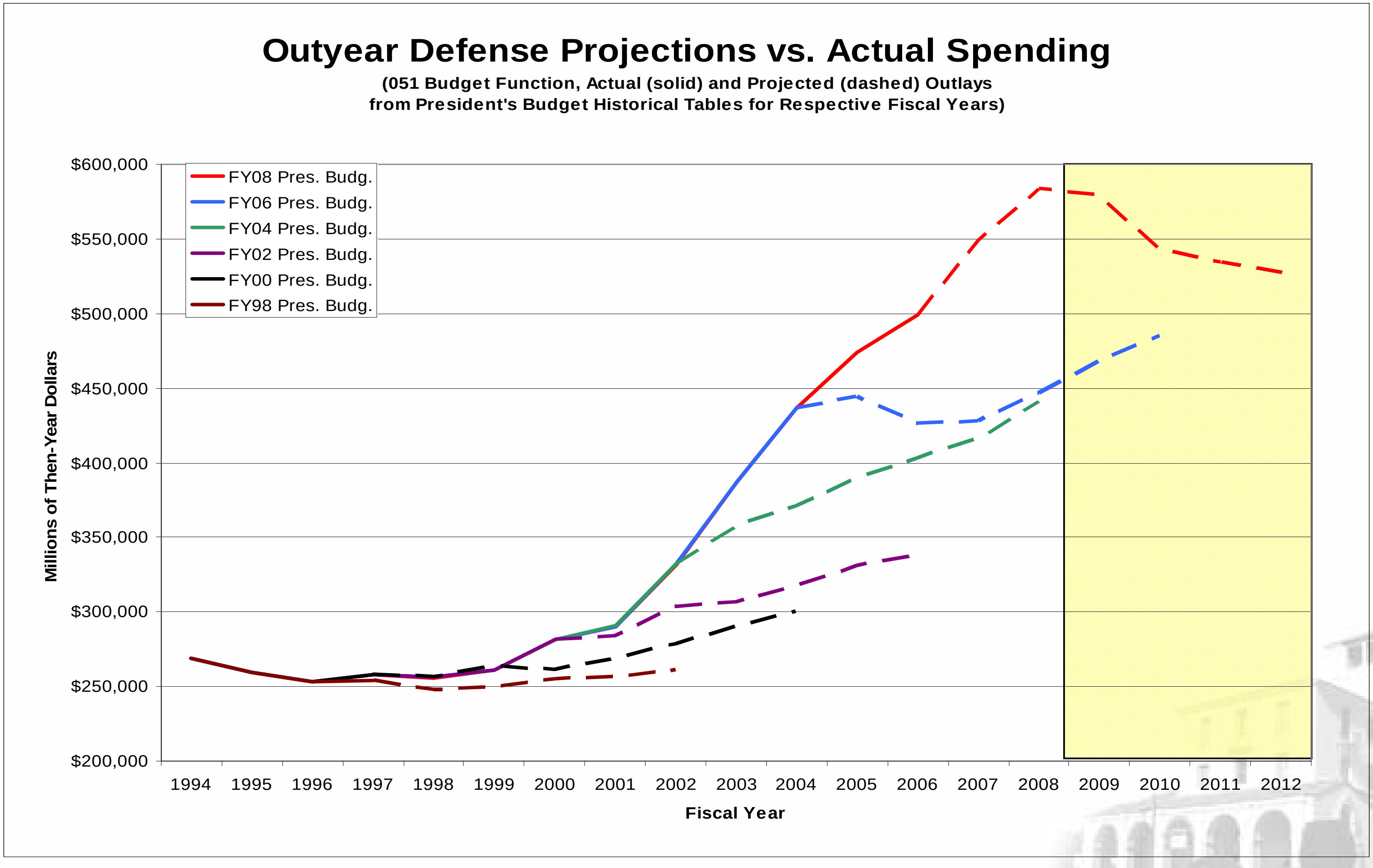
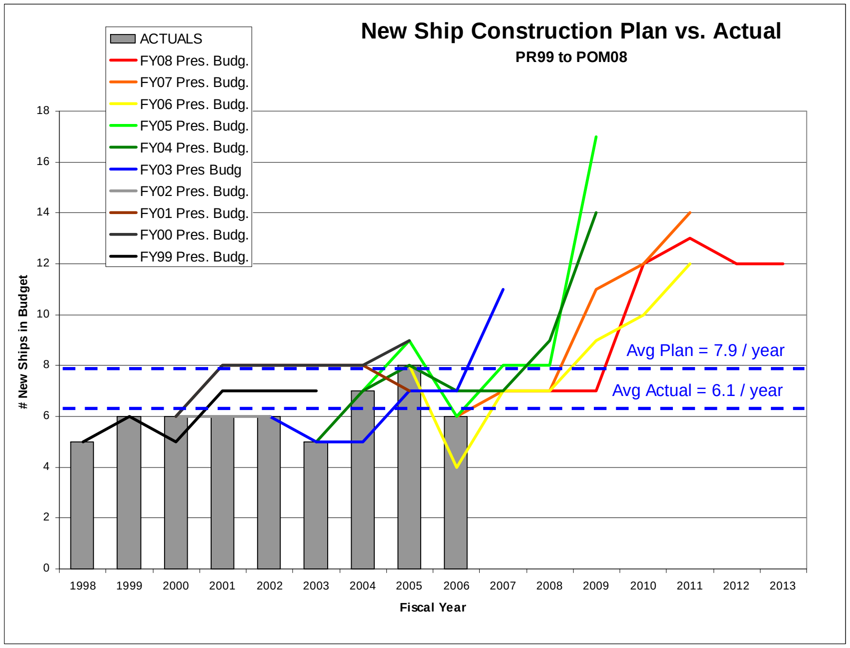
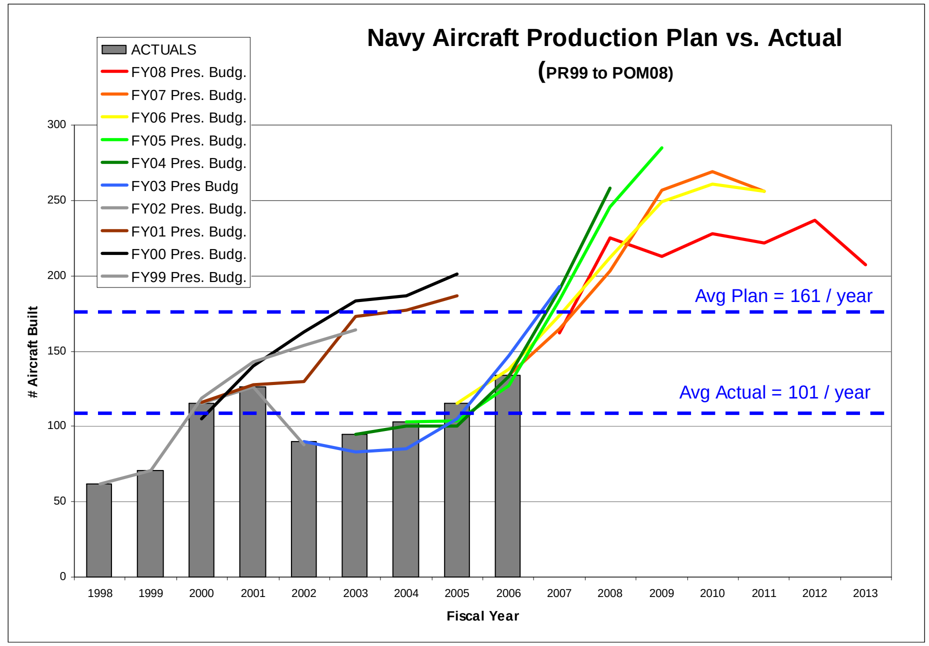
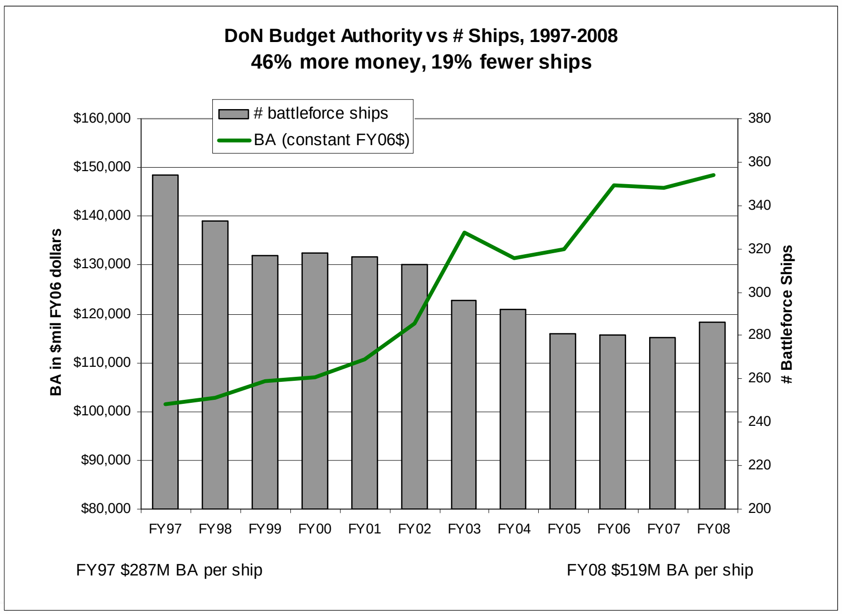
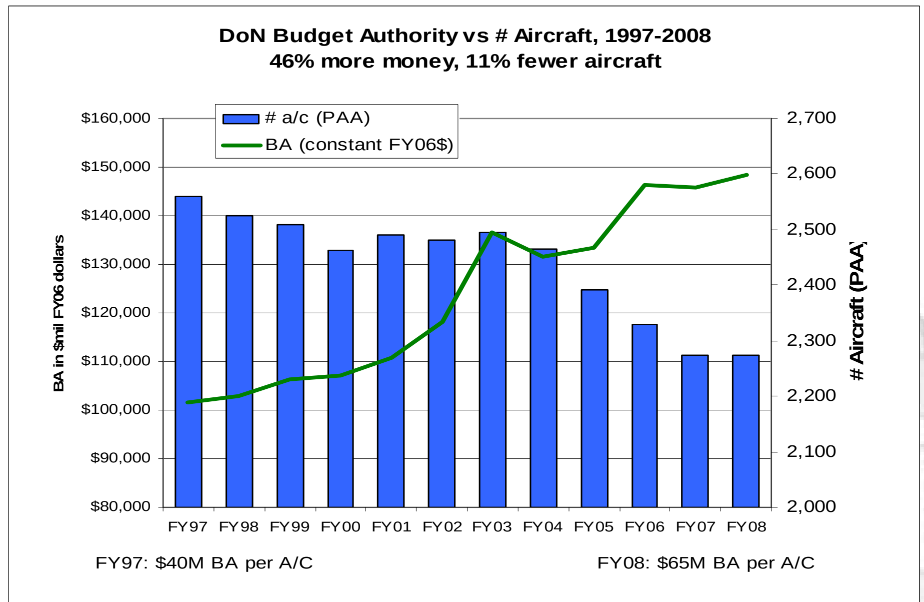


Source: Navy Budget Highlights Book, Fiscal Years 1998-2008

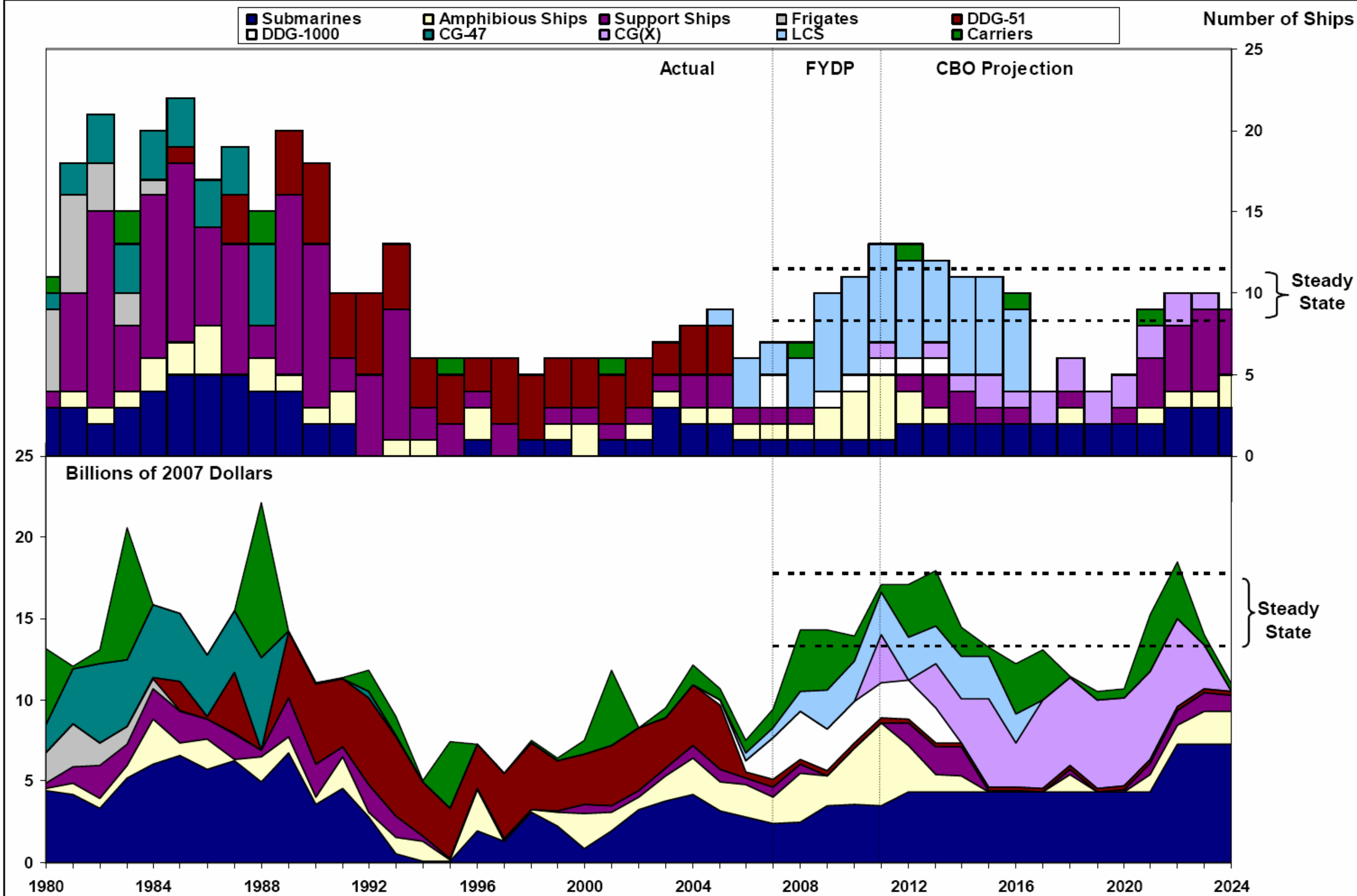




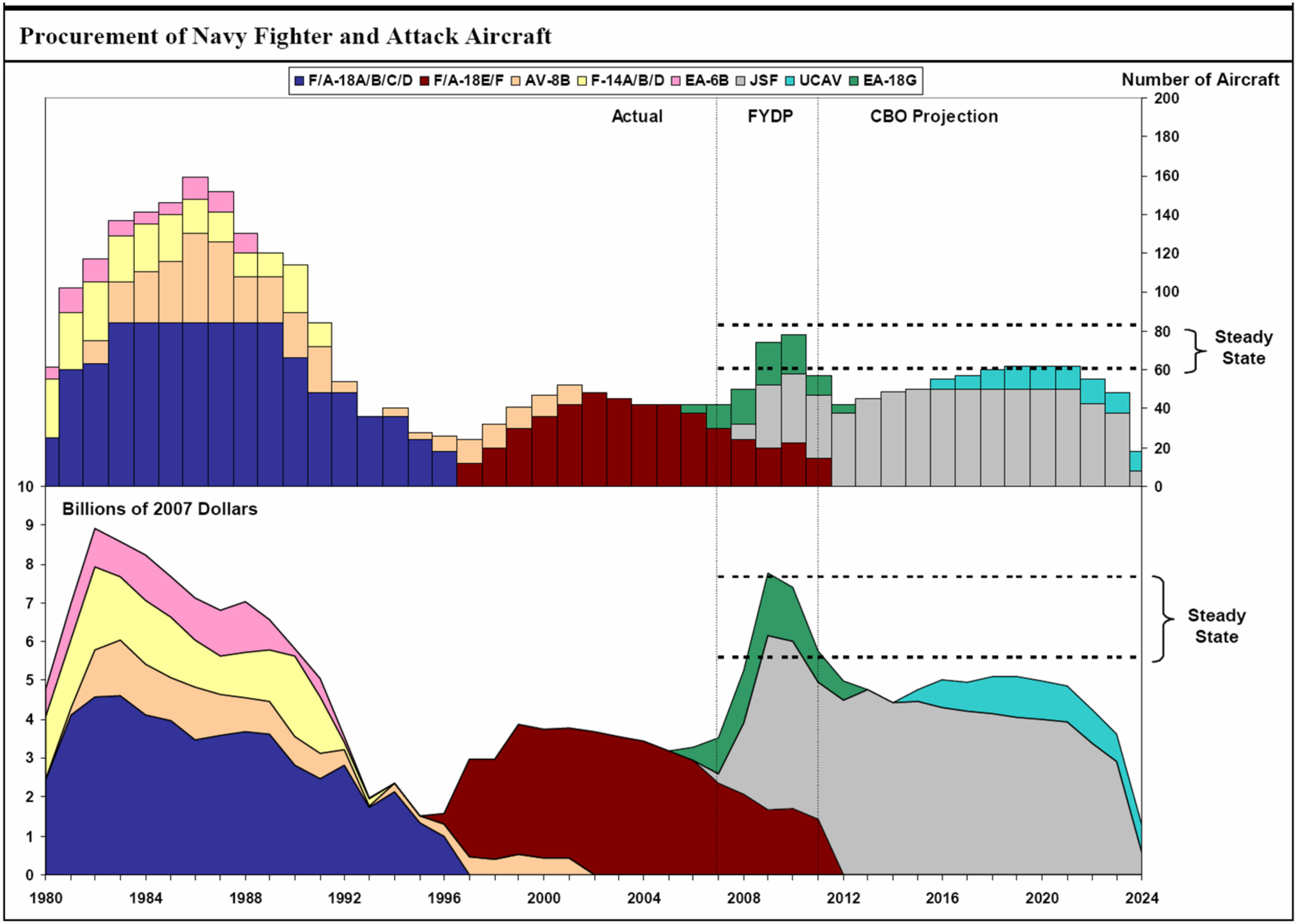




Procurement of Battle Force Ships

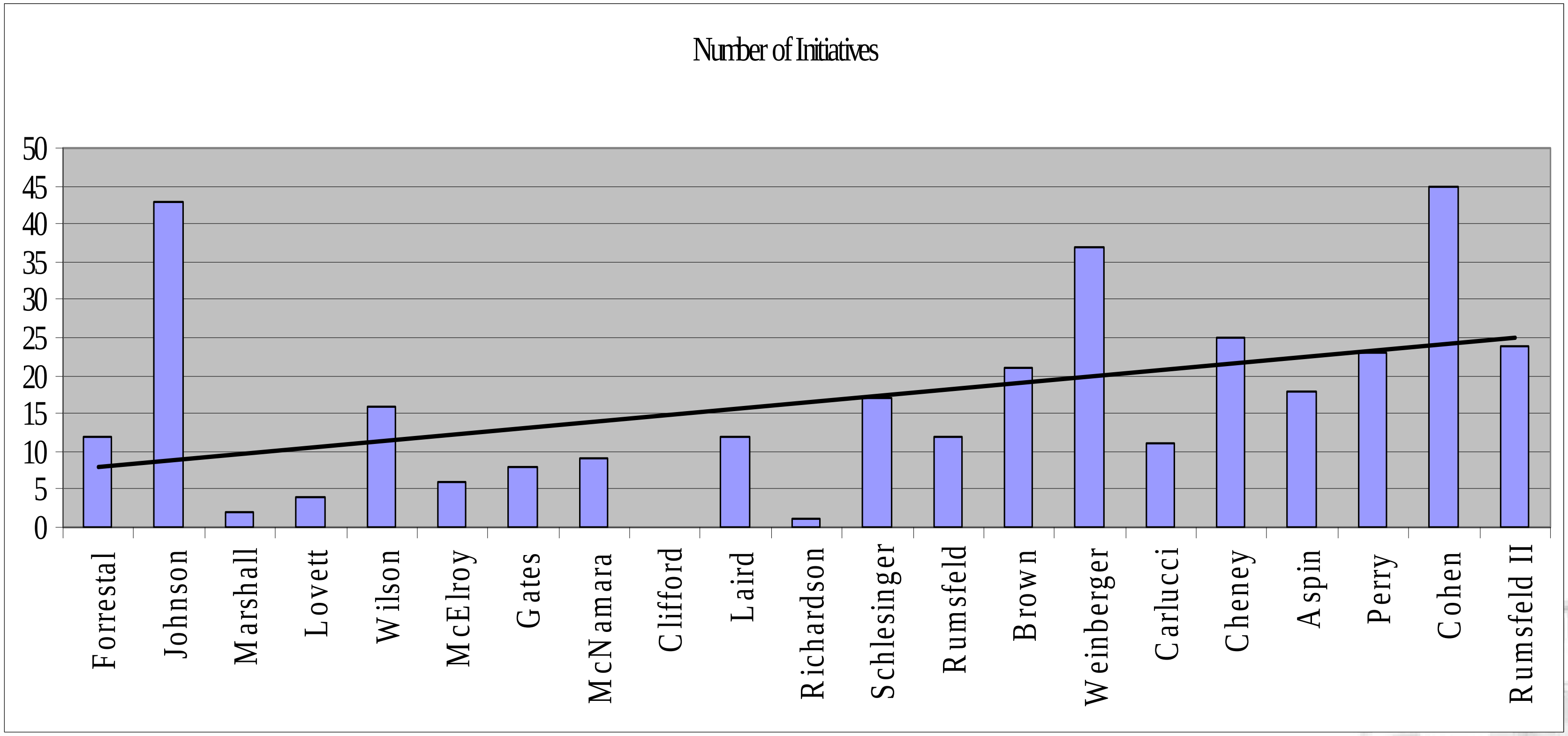


Source: CBO, The Long-Term Implications of Current Defense Plans: Detailed Update for Fiscal Year 2007 (April 2007)



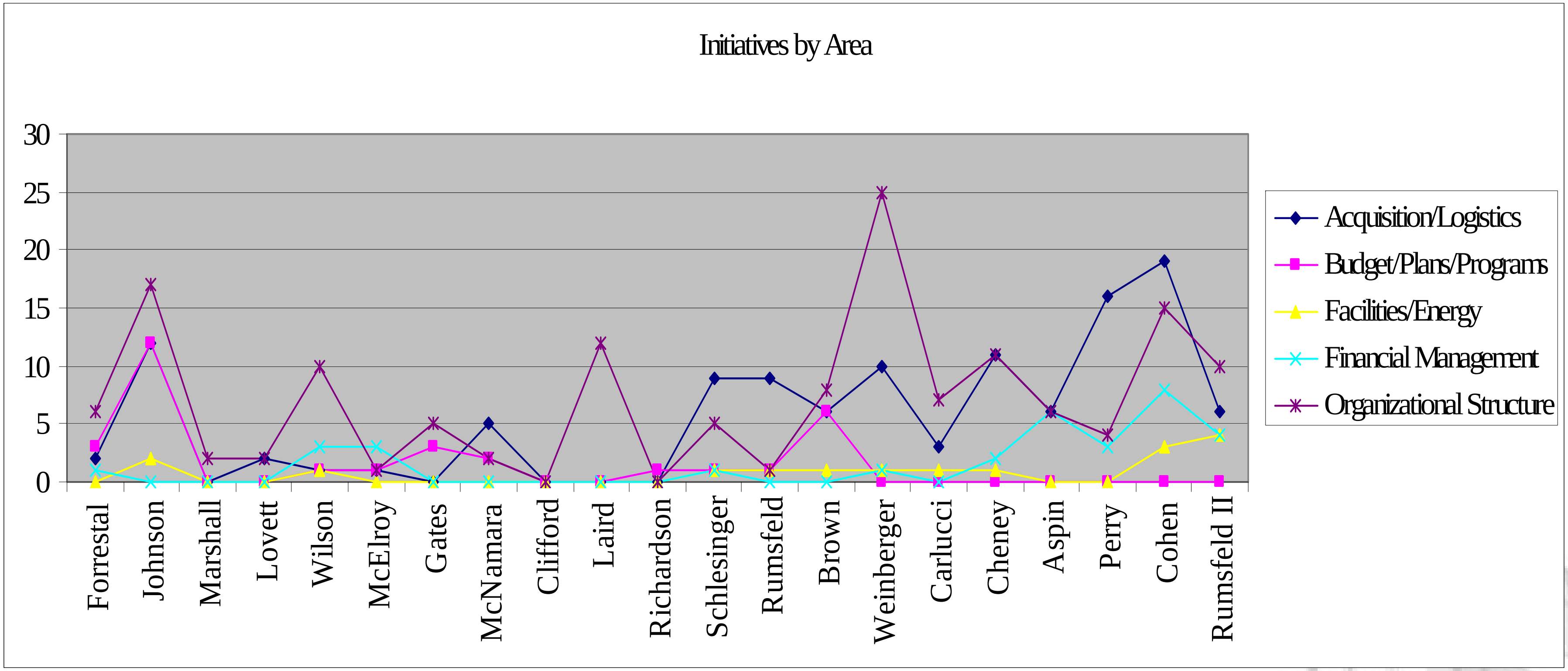
Source: CBO, The Long-Term Implications of Current Defense Plans: Detailed Update for Fiscal Year 2007 (April 2007)

History of Continuous Reform: SECDEF Management Reforms



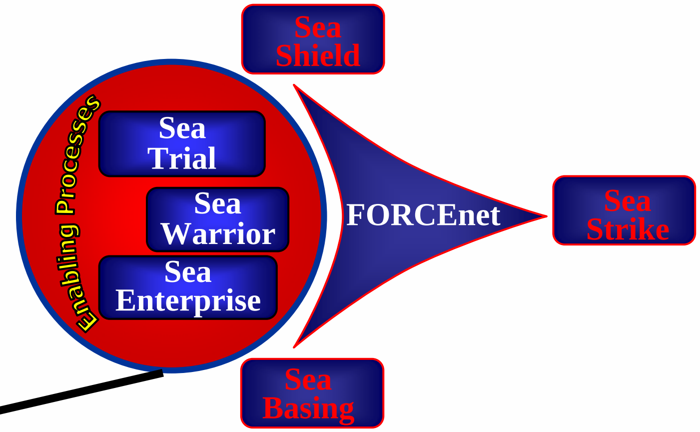
Source: Robin Walther and Dan Francis

History of Continuous Reform: Areas of SECDEF Reform Initiatives



Source: Robin Walther and Dan Francis

What is Sea Enterprise?
Sea Power 21



SEA ENTERPRISE

Resourcing Tomorrow's Fleet…optimum resource allocation, increased productivity, enhanced procurement

- **Identify & harvest efficiencies**
  - **Divest non-core functions**
  - **Organizational streamlining**
  - **Manpower reduction through technology insertion and process alignment**
- **Fund future readiness**
  - **Enhanced investment in warfighting capability**
  - **Accelerate transformation**
- **Inculcate culture of productivity**

Threats to Sustaining Management Reform

1. War Budgeting

2. Losing the Vision

3. Change Fatigue

4. Leadership Change

Three Propositions

Proposition 1: Efficiency-seeking management reforms will be insufficient to make up the budget shortfall

Proposition 2: Good management does not attract resources

Proposition 3: Continuous efficiency-seeking management improvement in defense should be understood as driven by stewardship concerns and the requirements of the operating forces.

Two Conclusions

- Large budget reductions, if they occur, should be met with truly transformational responses rather than defensive ones.
- The acquisition community must view itself as a partner in cost-focused management reform.

Two Questions

- What are the best budget policy decisions regarding resource levels and allocation considering both internal and external sources of fiscal stress?
- How much and what kind of management reform is needed to meet the standards of stewardship and to support the requirements of the operating forces?